

**LAKE PARK MUNICIPAL UTILITIES**  
(A COMPONENT UNIT OF THE CITY OF LAKE PARK, IOWA)

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2013

LAKE PARK MUNICIPAL UTILITIES  
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LAKE PARK MUNICIPAL UTILITIES

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
<b>(Before January 2013)</b>		
Brent Jacobsen	Chairman	December 31, 2012
Carl Gochnauer	Vice-Chairman	December 31, 2014
Vivian LaLone	Secretary/Treasurer	December 31, 2013
Tony Lemker	Trustee	December 31, 2016
Carol Johnson	Trustee	December 31, 2015
Linda Treharne	Municipal Clerk	Indefinite
<b>(After January 1, 2013)</b>		
Brent Jacobsen	Chairman	December 31, 2018
Tony Lemker	Vice-Chairman	December 31, 2016
Vivian LaLone	Secretary/Treasurer	December 31, 2013
Carl Gochnauer	Trustee	December 31, 2014
Carol Johnson	Trustee	December 31, 2015
Linda Treharne	Municipal Clerk	Indefinite

**WINTHER, STAVE & Co., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Lake Park Municipal Utilities

**Report on the Financial Statements**

We have audited the accompanying financial statements of the electric, water and gas enterprise funds of Lake Park Municipal Utilities (Utilities), a component unit of the City of Lake Park, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Lake Park Municipal Utilities' basic financial statements listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Basis for Qualified Opinion**

As discussed in Note 7, the Utilities did not record or disclose the net annual required contribution for other postemployment benefits (OPEB) or the net OPEB obligation liability as required by Governmental Accounting Standards Board Statement No. 45. The effect on the financial statements of this departure is not reasonably determinable.

**Qualified Opinion**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the electric, water and gas enterprise funds of Lake Park Municipal Utilities at June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1, the financial statements present only the electric, water and gas enterprise funds of Lake Park Municipal Utilities, a component unit of the City of Lake Park, and do not purport to, and do not, present fairly the financial position of the City of Lake Park as of June 30, 2013 and the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Other Matters***Required supplementary Information*

Accounting principles generally accepted in the United States of America require the Budgetary Comparison Information on pages 18 and 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lake Park Municipal Utilities has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2013 on our consideration of Lake Park Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lake Park Municipal Utilities' internal control over financial reporting and compliance.

*Wintner, Starn & Co., LLP*

October 2, 2013

## **BASIC FINANCIAL STATEMENTS**

LAKE PARK MUNICIPAL UTILITIES  
STATEMENT OF NET POSITION  
JUNE 30, 2013

ASSETS

	Electric Fund	Water Fund	Gas Fund	Total
<b>CURRENT ASSETS:</b>				
Cash (Note 2) .....	\$1,577,165		\$1,000,579	\$2,577,744
Accounts receivable (net) (Note 3) .....	133,376	\$ 24,238	26,675	184,289
Inventories .....	199,741	33,833	18,665	252,239
Prepaid expenses .....	9,308	1,267	2,597	13,172
Interest receivable .....	88		20	108
<b>TOTAL CURRENT ASSETS</b>	<u>1,919,678</u>	<u>59,338</u>	<u>1,048,536</u>	<u>3,027,552</u>
<b>NONCURRENT ASSETS:</b>				
Bond costs (net) .....	47,744			47,744
Restricted assets:				
Revenue bond sinking fund .....	26,124			26,124
<b>TOTAL NONCURRENT ASSETS</b>	<u>73,868</u>			<u>73,868</u>
<b>CAPITAL ASSETS (Note 4):</b>				
Capital assets .....	4,670,892	2,297,268	759,518	7,727,678
Accumulated depreciation .....	(2,272,227)	(1,581,684)	(552,928)	(4,406,839)
<b>TOTAL CAPITAL ASSETS, NET</b>	<u>2,398,665</u>	<u>715,584</u>	<u>206,590</u>	<u>3,320,839</u>
 <b>TOTAL ASSETS</b>	 <u>\$4,392,211</u>	 <u>\$ 774,922</u>	 <u>\$1,255,126</u>	 <u>\$6,422,259</u>



LAKE PARK MUNICIPAL UTILITIES  
STATEMENT OF NET POSITION - Continued  
JUNE 30, 2013

LIABILITIES AND NET POSITION

	Electric Fund	Water Fund	Gas Fund	Total
<b>CURRENT LIABILITIES:</b>				
Cash deficit .....		\$271,745		\$ 271,745
Accounts payable .....	\$ 88,007	12,100	\$ 61,400	161,507
Accrued interest .....	5,046			5,046
Salaries and benefits payable .....	4,291	2,403	3,884	10,578
Customer meter deposits .....	5,097	3,132	7,247	15,476
Current portion long-term debt .....	135,000			135,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>237,441</u>	<u>289,380</u>	<u>72,531</u>	<u>599,352</u>
<b>LONG-TERM LIABILITIES (Note 5):</b>				
Revenue capital loan notes payable .....	1,585,000			1,585,000
Less current portion above .....	(135,000)			(135,000)
<b>TOTAL LONG-TERM LIABILITIES</b>	<u>1,450,000</u>			<u>1,450,000</u>
<b>TOTAL LIABILITIES</b>	<u>1,687,441</u>	<u>289,380</u>	<u>72,531</u>	<u>2,049,352</u>
<b>NET POSITION:</b>				
Net investment in capital assets .....	813,665	715,584	206,590	1,735,839
Restricted for:				
Debt service .....	26,124			26,124
Unrestricted .....	1,864,981	(230,042)	976,005	2,610,944
<b>TOTAL NET POSITION</b>	<u>2,704,770</u>	<u>485,542</u>	<u>1,182,595</u>	<u>4,372,907</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$4,392,211</u>	<u>\$774,922</u>	<u>\$1,255,126</u>	<u>\$6,422,259</u>

LAKE PARK MUNICIPAL UTILITIES  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2013

	Electric Fund	Water Fund	Gas Fund	Total
REVENUES:				
Operating revenues .....	<u>\$1,443,264</u>	<u>\$272,331</u>	<u>\$ 602,129</u>	<u>\$2,317,724</u>
OPERATING EXPENSES:				
Direct costs .....	668,107	49,223	387,507	1,104,837
Other operating expenses .....	331,043	110,404	154,126	595,573
Administrative expenses .....	<u>33,443</u>	<u>31,202</u>	<u>29,865</u>	<u>94,510</u>
TOTAL OPERATING EXPENSES	<u>1,032,593</u>	<u>190,829</u>	<u>571,498</u>	<u>1,794,920</u>
OPERATING INCOME	<u>410,671</u>	<u>81,502</u>	<u>30,631</u>	<u>522,804</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income .....	19,918	360	7,626	27,904
Economic development contributions ....	(5,500)		(5,500)	(11,000)
Payments in lieu of property taxes .....	(37,291)	(5,483)	(6,558)	(49,332)
Interest expense .....	<u>(65,100)</u>			<u>(65,100)</u>
TOTAL NON-OPERATING EXPENSES	<u>(87,973)</u>	<u>(5,123)</u>	<u>(4,432)</u>	<u>(97,528)</u>
CHANGE IN NET POSITION	322,698	76,379	26,199	425,276
NET POSITION BEGINNING OF YEAR	<u>2,382,072</u>	<u>409,163</u>	<u>1,156,396</u>	<u>3,947,631</u>
NET POSITION END OF YEAR	<u>\$2,704,770</u>	<u>\$485,542</u>	<u>\$1,182,595</u>	<u>\$4,372,907</u>

LAKE PARK MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2013

	Electric Fund	Water Fund	Gas Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers .....	\$1,439,598	\$ 276,602	\$ 594,689	\$2,310,889
Cash paid to suppliers .....	(764,050)	(103,654)	(471,970)	(1,339,674)
Cash paid to employees .....	(117,998)	(32,105)	(77,339)	(227,442)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>557,550</u>	<u>140,843</u>	<u>45,380</u>	<u>743,773</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Economic development contributions ....	(5,500)		(5,500)	(11,000)
Payments in lieu of property taxes .....	(37,291)	(5,483)	(6,558)	(49,332)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(42,791)</u>	<u>(5,483)</u>	<u>(12,058)</u>	<u>(60,332)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets .....	(38,680)	(17,561)	(10,449)	(66,690)
Principal paid on capital loan notes .....	(130,000)			(130,000)
Interest paid .....	(65,513)			(65,513)
Decrease in sinking fund .....	(3,797)			(3,797)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(237,990)</u>	<u>(17,561)</u>	<u>(10,449)</u>	<u>(266,000)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received from investments .....	<u>19,918</u>	<u>360</u>	<u>7,626</u>	<u>27,904</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>19,918</u>	<u>360</u>	<u>7,626</u>	<u>27,904</u>
NET CHANGE IN CASH .....	296,687	118,159	30,499	445,345
CASH (CASH DEFICIT) BEGINNING OF YEAR	<u>1,280,478</u>	<u>(389,904)</u>	<u>970,080</u>	<u>1,860,654</u>
CASH (CASH DEFICIT) END OF YEAR	<u>\$1,577,165</u>	<u>\$(271,745)</u>	<u>\$1,000,579</u>	<u>\$2,305,999</u>

LAKE PARK MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS - Continued  
YEAR ENDED JUNE 30, 2013

	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Gas Fund</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income .....	\$410,671	\$ 81,502	\$30,631	\$522,804
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation .....	129,419	54,272	21,865	205,556
Amortization .....	4,468			4,468
(Increase) decrease in:				
Accounts receivable .....	(4,151)	4,590	(8,531)	(8,092)
Inventory .....	9,285	1,892	(2,774)	8,403
Prepaid expenses .....	2,217	400	133	2,750
Increase (decrease) in:				
Accounts payable .....	1,617	(3,078)	489	(972)
Accrued salaries and vacation .....	3,539	1,584	2,476	7,599
Customer deposits .....	<u>485</u>	<u>(319)</u>	<u>1,091</u>	<u>1,257</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$557,550</u>	<u>\$140,843</u>	<u>\$45,380</u>	<u>\$743,773</u>

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

Lake Park Municipal Utilities (Utilities) is a separate and distinct city utility chartered under Iowa Code Section 388. The financial statements of the Utilities include the Electric, Water, and Gas enterprise funds which provide services to the residents of the City of Lake Park, Iowa. Lake Park Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Lake Park. Based on the criteria set forth by the Governmental Accounting Standards Board, Lake Park Municipal Utilities is considered a component unit of the City of Lake Park. However, the City's financial statements cover the primary government only; therefore financial information concerning the Utilities is not included.

For financial reporting purposes, the Lake Park Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Lake Park Municipal Utilities has no component units.

**Financial Statements**

The accounts of Lake Park Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. Individual enterprise funds are reported as separate columns in the financial statements as follows:

Electric Fund - the Electric Fund accounts for the operation and maintenance of the electric distribution system.

Water Fund - The Water Fund accounts for the operation and maintenance of the water distribution system.

Gas Fund - The Gas Fund accounts for the operation and maintenance of the gas distribution system.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued**

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**Revenue Recognition**

Revenues earned are recorded at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is not considered to have a material effect on the financial statements. The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

**Cash**

For the purposes of the statement of cash flows, the Utilities considers as cash all currency on hand and unrestricted demand and other deposit accounts with banks or other financial institutions.

**Accounts Receivable**

Accounts receivable are recorded at the time the service is billed. Accounts are reviewed annually; accounts considered uncollectable are written off to the allowance for doubtful accounts.

**Inventories**

Inventories are valued at the lower of cost or market on a first-in, first-out method. Inventories are recorded as expenses or capitalized, if applicable, when consumed rather than when purchased.

**Capital Assets**

Capital assets are accounted for at historical cost. The cost of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized.

Capital assets of the Utilities are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Building and plant .....	10 - 40
Equipment .....	5 - 15
Distribution System .....	20 - 40
Land Improvements .....	15

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Restricted Assets**

Funds set aside for payment of the Utilities' revenue notes are classified as restricted assets since their use is restricted by applicable note indentures.

**Net Position**

The Statement of Net Position presents the Utilities' assets and liabilities, with the difference reported as net position. Net position is reported in the following categories.

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted net position* results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the two proceeding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

**Compensated Absences**

The Utilities' employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. A liability is recorded when incurred, included in salaries and benefits payable in the respective enterprise fund financial statements, and computed based on rates of pay in effect at June 30, 2013.

Employees also accumulate a limited amount of earned but unused sick leave. An employee does not receive any pay for sick leave upon termination, retirement or death. Since the amount of sick leave to be used is not determinable, no liability has been accrued.

**Economic Development Contributions**

By authorization of the Board of Trustees, funds were expended for economic development benefiting the City of Lake Park, Iowa and Lake Park Municipal Utilities.

**Payments in Lieu of Property Taxes**

By resolution of the Board of Trustees, voluntary payments in lieu of property taxes are made to the City of Lake Park, Iowa. Currently, payments approximate the City's utility usage.

**Income Taxes**

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Budgetary Information**

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Management's Review**

The Utilities has evaluated subsequent events through the date of the auditors' report, which is the date the financial statements were available to be issued.

**2. DEPOSITS AND INVESTMENTS**

The Utilities' deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2013.

**3. ACCOUNTS RECEIVABLE**

Accounts receivable are reported net of allowance for doubtful accounts as follows:

	Electric <u>Fund</u>	Water <u>Fund</u>	Gas <u>Fund</u>
Accounts receivable - customers .....	\$135,176	\$24,838	\$28,675
Less - allowance for doubtful accounts .....	<u>1,800</u>	<u>600</u>	<u>2,000</u>
Accounts receivable (net)	<u>\$133,376</u>	<u>\$24,238</u>	<u>\$26,675</u>



LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**4. CAPITAL ASSETS**

Capital assets activity for the year was as follows:

<b>Electric Utility</b>	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>
Capital assets:				
Land and improvements .....	\$ 11,500			\$ 11,500
Buildings .....	1,109,405			1,109,405
Equipment .....	544,679	\$ 17,621		562,300
Distribution system .....	<u>2,966,628</u>	<u>21,059</u>		<u>2,987,687</u>
Total capital assets	<u>4,632,212</u>	<u>38,680</u>		<u>4,670,892</u>
Less accumulated depreciation for:				
Buildings .....	230,878	27,597		258,475
Equipment .....	457,759	17,340		475,099
Distribution system .....	<u>1,454,171</u>	<u>84,482</u>		<u>1,538,653</u>
Total accumulated depreciation	<u>2,142,808</u>	<u>129,419</u>		<u>2,272,227</u>
Total capital assets, net	<u>\$2,489,404</u>	<u>\$(90,739)</u>		<u>\$2,398,665</u>
<b>Water Utility</b>	<u>Balance at July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2013</u>
Capital assets:				
Land and improvements .....	\$ 35,006			\$ 35,006
Buildings .....	1,104	\$ 303		1,407
Equipment .....	194,324	4,350		198,674
Distribution system .....	<u>2,049,273</u>	<u>12,908</u>		<u>2,062,181</u>
Total capital assets	<u>2,279,707</u>	<u>17,561</u>		<u>2,297,268</u>
Less accumulated depreciation for:				
Land and improvements .....	13,228			13,228
Buildings .....	965	63		1,028
Equipment .....	174,984	5,906		180,890
Distribution system .....	<u>1,338,235</u>	<u>48,303</u>		<u>1,386,538</u>
Total accumulated depreciation	<u>1,527,412</u>	<u>54,272</u>		<u>1,581,684</u>
Total capital assets, net	<u>\$ 752,295</u>	<u>\$(36,711)</u>		<u>\$ 715,584</u>

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**4. CAPITAL ASSETS - Continued**

<b>Gas Utility</b>	<b>Balance at July 1, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2013</b>
Capital assets:				
Land and improvements .....	\$ 2,061			\$ 2,061
Equipment .....	246,556	\$ 641		247,197
Distribution system .....	500,452	9,808		510,260
Total capital assets	<u>749,069</u>	<u>10,449</u>		<u>759,518</u>
Less accumulated depreciation for:				
Equipment .....	193,876	10,244		204,120
Distribution system .....	337,187	11,621		348,808
Total accumulated depreciation	<u>531,063</u>	<u>21,865</u>		<u>552,928</u>
Total capital assets, net	<u>\$218,006</u>	<u>\$(11,416)</u>		<u>\$206,590</u>

**5. LONG-TERM DEBT**

A summary of changes in long-term liabilities for the year ended June 30, 2013 is as follows:

	<b>Balance at June 30, 2012</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance at June 30, 2013</b>	<b>Due Within One Year</b>
Electric revenue refunding capital loan notes	<u>\$1,715,000</u>	<u>          </u>	<u>\$130,000</u>	<u>\$1,585,000</u>	<u>\$135,000</u>

**Electric Fund Revenue Refunding Capital Loan Notes**

On March 11, 2008, the Utility issued electric revenue refunding capital loan notes in the amount of \$2,310,000. The notes bear interest of 3.82% and mature in varying annual amounts, ranging from \$135,000 to \$185,000, with the final maturity due June 1, 2023.

The notes are secured by future net revenues of the Electric Utility. Proceeds from the notes provided financing for the construction of improvements to the system. Annual principal and interest payments on the notes are expected to require less than 40% of net revenues. The total principal and interest remaining to be paid on the notes is \$1,936,058. For the current year, principal and interest paid and total customer net revenues (operating income plus depreciation/amortization expense) were \$195,100 and \$540,090, respectively.

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**5. LONG-TERM DEBT - Continued**

The resolution providing for the issuance of the notes provides for the creation of a Sinking Fund, into which shall be set aside an amount equal to the amount of annual principal and interest coming due on those bonds.

A summary of the annual principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 135,000	\$ 60,547	\$ 195,547
2015	140,000	55,390	195,390
2016	145,000	50,042	195,042
2017	145,000	44,503	189,503
2018	155,000	38,964	193,964
2019 - 2023	<u>865,000</u>	<u>101,612</u>	<u>966,612</u>
TOTAL	<u>\$1,585,000</u>	<u>\$351,058</u>	<u>\$1,936,058</u>

**6. PENSION AND RETIREMENT BENEFITS**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the Utilities is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The Utilities' contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$20,194, \$18,759, and \$15,132, respectively, equal to the required contributions for each year.

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**7. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The Utilities operate a single-employer retiree benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 4 active and no retired members in the plan. Participants must be age 55 or older and meet certain other requirements at retirement. Benefits terminate upon attaining Medicare eligibility. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy. It is anticipated retiree premiums will be fully offset by monthly contributions.

The Utilities has not implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions. This is a departure from accounting principles generally accepted in the United States of America. The amount by which this departure would affect liabilities, net assets and expenses is not reasonably determinable.

**8. LOCAL GOVERNMENT RISK POOL**

Lake Park Municipal Utilities is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300 percent of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS - Continued  
JUNE 30, 2013

**8. LOCAL GOVERNMENT RISK POOL - Continued**

Lake Park Municipal Utilities' property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. Lake Park Municipal Utilities' contributions to the Pool for the year ended June 30, 2013 were \$17,564.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$15,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Utilities does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2013, no liability has been recorded in the Utilities' financial statements. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

Lake Park Municipal Utilities also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation. The Utilities assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## REQUIRED SUPPLEMENTARY INFORMATION

LAKE PARK MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET AND ACTUAL  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2013

	<u>Actual</u>	<u>Original/ Final Budget</u>	<u>Final to Actual Variance</u>
REVENUES:			
Charges for services .....	\$2,317,724	\$2,247,750	\$ 69,974
Non-operating .....	<u>27,904</u>	<u>22,000</u>	<u>5,904</u>
TOTAL REVENUES	<u>2,345,628</u>	<u>2,269,750</u>	<u>75,878</u>
EXPENSES:			
Electric .....	1,140,484	1,163,865	23,381
Water .....	196,312	239,470	43,158
Gas .....	<u>583,556</u>	<u>579,320</u>	<u>(4,236)</u>
TOTAL EXPENSES	<u>1,920,352</u>	<u>1,982,655</u>	<u>62,303</u>
CHANGE IN NET POSITION	425,276	287,095	<u>\$138,181</u>
NET POSITION			
BEGINNING OF YEAR	<u>3,947,631</u>	<u>3,704,856</u>	
NET POSITION END OF YEAR	<u>\$4,372,907</u>	<u>\$3,991,951</u>	

LAKE PARK MUNICIPAL UTILITIES  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2013

In accordance with the Code of Iowa, the Utilities annually adopts a budget following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. All Utilities' disbursements are included in business-type activities function.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees  
Lake Park Municipal Utilities

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the electric, water and gas enterprise funds of Lake Park Municipal Utilities (Utilities) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements, and have issued our report thereon dated October 2, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Lake Park Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified a certain deficiency in internal control we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Utilities' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Lake Park Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance that is described in Part II of the accompanying Schedule of Finding.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Lake Park Municipal Utilities' Responses to Findings**

Lake Park Municipal Utilities' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Utilities' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utilities' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Lake Park Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Wintner, Starnes & Co., LLP*

October 2, 2013

LAKE PARK MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2013

**Part I: Findings Related to the Financial Statements**

**INTERNAL CONTROL DEFICIENCY:**

I-A-13 Segregation of Duties - One employee handles most of the financial duties, including reconciling accounts and recording financial data. One important aspect of internal control is to prevent employees from handling duties which are incompatible.

Recommendation - We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response - We will continue our review.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

LAKE PARK MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS - Continued  
YEAR ENDED JUNE 30, 2013

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-13 Certified Budget - Total disbursements for all funds during the year ended June 30, 2013 did not exceed the total amount budgeted.
- II-B-13 Questionable Disbursements - We noted no expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-13 Travel Expense - No expenditures for travel expenses of spouses of officials or employees of the Utilities were noted.
- II-D-13 Business Transactions - We noted no business transactions between the Utilities and Utilities' officials or employees.
- II-E-13 Bond Coverage - Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-13 Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-13 Revenue Notes - The Electric Utility is in compliance with all aspects of the capital loan notes resolution, including cash reserves.
- II-H-13 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy.
- II-I-13 Official Depositories - A resolution naming official depositories has been approved by the Utilities. The maximum deposit amount stated in the resolution was exceeded for one financial institution during the year ended June 30, 2013.

Recommendation - We recommend amounts deposited in financial institutions be regularly reviewed for compliance with the depository resolution.

Response - We have revised the depository resolution accordingly.

Conclusion - Response accepted.